

TDS TELECOMMUNICATIONS CORPORATION,
HAMPDEN TELEPHONE COMPANY, HARTLAND &
ST. ALBANS TELEPHONE COMPANY, THE
ISLAND TELEPHONE COMPANY, SOMERSET
TELEPHONE COMPANY, WARREN TELEPHONE
COMPANY, AND WEST PENOBSCOT
TELEPHONE AND TELEGRAPH COMPANY

Docket No. 2001-330

and

COBBOSSEECONTEE TELEPHONE AND
TELEGRAPH COMPANY

**STIPULATION ON ACQUISITION
OF
COBBOSSEECONTEE TELEPHONE AND TELEGRAPH COMPANY**

TDS Telecommunications Corporation (“TDS Telecom”), Hampden Telephone Company, Hartland & St. Albans Telephone Company, The Island Telephone Company, Somerset Telephone Company, Warren Telephone Company, West Penobscot Telephone Company and Telegraph Company (the “TDS Maine Telcos”), Cobbosseecontee Telephone and Telegraph Company (“Cobbosseecontee Tel.”) (TDS Telecom, the TDS Maine Telcos, and Cobbosseecontee Tel. shall sometimes be referred to as “Petitioners”), and the Office of the Public Advocate (“OPA”), stipulate and agree as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues in these proceedings without a full, adversary hearing on the issues raised in this case and to expedite the Public Utilities Commission’s consideration and resolution of this proceeding. The provisions agreed to herein have been reached as a result of information contained in the Petition filed by Petitioners and gathered through informal discovery and discussion among the parties.

II. PROCEDURAL HISTORY

On May 9, 2001, Petitioners filed a Petition seeking to the extent required either reorganization approval pursuant to 35-A M.R.S.A. § 708, or an exemption from such approval, of transactions related to the implementation of an “Agreement of Merger” dated March 2, 2001 which provided for, inter alia, (i) the creation by Telephone and

Data Systems, Inc. (“TDS”), the parent of TDS Telecom, of a wholly-owned subsidiary named “CTC Acquisition Corp.”; (ii) the merger of CTC Acquisition Corp. and Cobbosseecontee Tel., with Cobbosseecontee Tel. surviving as a wholly-owned subsidiary of TDS; and (iii) the transfer by TDS of all of the stock of Cobbosseecontee Tel. to TDS Telecom. In addition, Petitioners sought approval as a contract with affiliates pursuant to 35-A M.R.S.A. § 707(3) of a Master Service Agreement to be entered into following the TDS acquisition of Cobbosseecontee Tel. under which various services will be provided (i) by TDS, TDS Telecom, and various affiliates to Cobbosseecontee Tel., and (ii) by Cobbosseecontee Tel. to various affiliates. Petitioners further sought exemption from or approval under any other statutory provisions applicable to the transaction.

The parties agree that the Office of the Public Advocate (“OPA”) is an intervenor in this proceeding.

On or about July 19, 2001, Petitioners filed a draft of the proposed Master Service Agreement with the Commission’s Staff and the OPA.

III. STIPULATION PROVISIONS

1. TDS is a diversified telecommunications company based in Chicago, Illinois, and incorporated under the laws of the State of Delaware. TDS is the 100% owner of TDS Telecom. TDS Telecom is the 100% owner of the TDS Maine Telcos.

2. The TDS Maine Telcos are affiliates of each other under 35-A M.R.S.A. § 707(1)(A) through common ownership by TDS Telecom.

3. Cobbosseecontee Tel. is a Maine telephone utility currently providing local exchange telephone service in West Gardiner, Manchester, Litchfield and Farmingdale, Maine.

4. Kendra Shaw and two other non-employee individuals each own at least ten percent (10%) of the outstanding stock of Cobbosseecontee Tel. By virtue of such stock ownership, those three individuals are considered affiliated interests of Cobbosseecontee Tel.

5. TDS and CTC Acquisition Corp. have entered into an agreement with Cobbosseecontee Tel. for the merger of Cobbosseecontee Tel. and CTC Acquisition Corp., with Cobbosseecontee Tel. as the surviving entity, which will result in TDS becoming the owner of 100% of the stock of Cobbosseecontee Tel. Following such merger, none of the current stockholders of Cobbosseecontee Tel. will remain an affiliated interest of Cobbosseecontee Tel.

6. Simultaneously with the merger, TDS will transfer the ownership of Cobbosseecontee Tel. to TDS Telecom, a wholly-owned subsidiary of TDS formed for

the purpose of holding the ownership interest of TDS in all of its incumbent local exchange telephone companies. TDS and TDS Telecom will also provide various services to Cobbosseecontee Tel., including management, financial, engineering, and marketing. The transfer of the stock of the TDS Maine Telcos by TDS to TDS Telecom and the provision of these services by TDS and TDS Telecom was approved by this Commission in Docket No. 90-202. Petitioners request the authority to set up the same operating structure for Cobbosseecontee Tel.

7. This proposed transaction constitutes a reorganization of the TDS Maine Telcos and Cobbosseecontee Tel. within the meaning of 35-A M.R.S.A. § 708.

8. TDS Telecom plans to continue the operations of Cobbosseecontee Tel. as a separate telephone company, under its present name,¹ with its own facilities and personnel (although the General Manager will be named by TDS Telecom). Thus, customers will continue to be served by Cobbosseecontee Tel. TDS Telecom anticipates no diminution in the service as a result of the merger and plans to meet the demands of the customers of Cobbosseecontee Tel. for emerging telecommunications services. TDS Telecom plans no changes in the rates for existing services as a consequence of the acquisition. Any subsequent changes in regulated services or rates will be subject to the jurisdiction of the Commission.

9. The parties agree that the proposed reorganization is consistent with the interests of the ratepayers and investors of both Cobbosseecontee Tel. and the TDS Maine Telcos and that the following approvals should be granted:²

- a. Reorganization approval under 35-A M.R.S.A. § 708 for the creation of CTC Acquisition Corp. by TDS.
- b. Reorganization approval under 35-A M.R.S.A. § 708 for the merger of CTC Acquisition Corp. and Cobbosseecontee Tel., with Cobbosseecontee Tel. surviving. As a result of this merger, Cobbosseecontee Tel. will become an affiliated interest of each of the TDS Maine Telcos and of TDS and TDS Telecom, and each of the TDS Maine Telcos, TDS, TDS Telecom, and each of the other members of the TDS family of companies, will become affiliated interests of Cobbosseecontee Tel.
- c. Reorganization approval under 35-A M.R.S.A. § 708 for the termination by the current stockholders of Cobbosseecontee Tel. of their affiliated interest in Cobbosseecontee Tel.

¹ As a part of the merger, the name of the company will actually be changed slightly to “Cobbosseecontee Telephone Company” from “Cobbosseecontee Telephone and Telegraph Company.”

² The parties could not agree on whether all of these approvals are in fact required. However, without resolving that issue, the parties agree that each such approval should be granted.

- d. Approval under 35-A M.R.S.A. § 708 for the transfer of all of the stock in Cobbosseecontee Tel. from TDS to TDS Telecom that will occur simultaneously with consummation of the merger of Cobbosseecontee Tel. and CTC Acquisition Corp..
- e. Approval under 35-A M.R.S.A. §§ 901 and 902 for the issuance by Cobbosseecontee Tel. of stock (a) to TDS upon completion of the merger of Cobbosseecontee Tel. and CTC Acquisition Corp., and (b) to TDS Telecom upon transfer of all of the outstanding stock in Cobbosseecontee Tel. from TDS to TDS Telecom that will occur simultaneously with consummation of that merger.
- f. Approval for changing the name of Cobbosseecontee Tel. to “Cobbosseecontee Telephone Company” from “Cobbosseecontee Telephone and Telegraph Company.”

10. The parties agree that the above approvals are subject to the following conditions:

- a. Pursuant to Section 708(2)(A), the Commission’s approval of the Petitioners’ request in this docket shall be subject to the terms, conditions, and requirements set forth in Section 708(2)(A)(1)-(9).
- b. Approval of this reorganization shall not constitute a finding that any agreement or contract associated with this transaction is reasonable for ratemaking purposes. Pursuant to 35-A M.R.S.A. § 708(2)(A), Commission approval of this reorganization shall in no way restrict the powers of the Commission in determining and fixing any rate, fare, or toll of Cobbosseecontee Tel.
- c. Approval of this reorganization shall not be deemed an approval of any transactions between TDS Telecom and Cobbosseecontee Tel. not approved herein. Pursuant to 35-A M.R.S.A. § 707 such transactions shall continue to require Commission approval.
- d. Petitioners shall not seek Commission approval for an increase in rates based in whole or in part on an acquisition adjustment based on the difference, if any, between the net book value of Cobbosseecontee Tel. just prior to the merger contemplated herein and the purchase price, or acquisition cost, to be paid in connection with this merger.
- e. Cobbosseecontee Tel. agrees that, following consummation of this merger, any change to (or elimination of) either of the existing

payphones owned and maintained by Cobbosseecontee Tel. will be made in compliance with, or after obtaining a waiver from, any applicable Commission Rule.

- f. The parties agree that, following consummation of this merger, none of Cobbosseecontee Tel., the OPA, or the Commission shall initiate a rate proceeding for the purpose of effectuating or investigating a change (either an increase or a decrease) of any of Cobbosseecontee Tel.'s rates for any currently regulated service that is to be effective prior to May 30, 2003.

This prohibition shall not apply to any of the following:

- i Any voluntary reduction in rates that may be proposed by Cobbosseecontee Tel.
- ii Rates for any service not currently offered by Cobbosseecontee Tel.
- iii Increases in rates for resold directory assistance services which correspond to an increase in the cost of the service to Cobbosseecontee Tel., provided that the resulting directory assistance rates do not exceed the rates of Verizon for directory assistance and that Cobbosseecontee Tel. provides the same allowances for free directory assistance calls as is provided by Verizon.
- iv Cobbosseecontee Tel. may unbundle or increase rates for any existing Enhanced or CLASS service, provided that Cobbosseecontee Tel. shall provide a simultaneous revenue neutral reduction in rates for other services to offset any incremental revenues resulting from any such increase.

Notwithstanding the above, any of Cobbosseecontee Tel., the OPA, or the Commission shall be able to initiate a proceeding prior to May 30, 2003 provided that no rate change resulting from that proceeding shall be effective prior to May 30, 2003.

- g. The rate case moratorium described in the preceding subparagraph may be terminated if any of the following occurs, or it is known with reasonable certainty that it will occur, and it results, or it is known with reasonable certainty that it will result, individually or cumulatively, when netted with any other exogenous event(s), in a 5% or more increase or decrease in the costs, revenues, or net operating income of Cobbosseecontee Tel.:

- i If Cobbosseecontee Tel. is required, or if it is known with reasonable certainty that it will be required, by statute, by final judicial decision or order, or by final administrative rule or order, to reduce its intrastate access rates to a level below its current levels.
- ii The adoption, amendment, or implementation of a rule, requirement, order, or ruling by a judicial or administrative body, including the Commission, which is specific to Cobbosseecontee Tel. or to public utilities or the telecommunications industry, including but not limited to jurisdictional separations changes, provided that any rate changes related to implementation of the currently existing BSCA Rule will be in accordance with the provisions of the Rule and the Commission's interpretation and administration of the Rule;
- iii A statutory change to Title 47 of the United State Code Annotated, Title 35-A of the Maine Revised Statutes Annotated, or to federal or state tax laws.
- iv The adoption of an accounting order, standard, or formal letter of interpretation by the Commission or the FCC;
- v The occurrence of an extraordinary event totally outside the control of Cobbosseecontee Tel. which has a significant effect on Cobbosseecontee Tel.'s rate of return.

It is the intent of this Stipulation that, to the extent possible, the timing or implementation of any access rate reduction or other regulatory mandate within the control of the Commission, which will have an adverse impact on Cobbosseecontee Tel., shall take place in a manner that does not prejudice Cobbosseecontee Tel.'s ability to seek and obtain timely relief.

- h. If the Commission provides by rule or order for an adjustment of the rates of telephone companies on a generic basis, Cobbosseecontee Tel. may adjust its rates in the same manner as other telephone companies.
- i. The parties agree that the adoption by the Federal Communications Commission ("FCC") of the recommendation of the Rural Task Force ("RTF") for an increase in the current cap on the total high cost USF support available to all companies in any single year could

have an impact on Cobbosseecontee Tel. (and other ITCs in Maine). In the event, following consummation of this merger, (i) this change becomes effective prior to December 31, 2002, and (ii) the cumulative net amount of such changes exceeds \$10,000 per year for Cobbosseecontee Tel., then as soon as practicable following the effective dates of such changes, Cobbosseecontee Tel. shall adjust its intrastate revenues (either up or down, as appropriate) to pass through to its local and/or interexchange customers 100% of the net change. The method to distribute/collect this amount shall be determined by Cobbosseecontee Tel. and the Public Advocate, subject to approval by the Commission. This pass-through shall last until the next review of Cobbosseecontee's Tel.'s intrastate revenue requirement but no later than May 30, 2003.

- j. The parties agree that in the event of the consummation of this merger, if between the date of this Stipulation and May 30, 2003, Cobbosseecontee Tel. should receive funds from the state high cost universal service fund that are not required to be used for reduction of intrastate access rates or for other offsets specified by Commission Rule or Order, then Cobbosseecontee Tel. shall pass through such funds via reduction(s) to its retail rates on a revenue neutral basis.

11. The parties and the Staff are negotiating separately the Master Service Agreement which will be effective for Cobbosseecontee Tel. and each of the TDS Maine Telcos. Those negotiations will include as well a modification to the current partial reorganization exemption granted to the TDS Maine Telcos by Order of this Commission dated May 19, 1994 in Docket No. 93-089. The parties agree that the results of those negotiations will apply to Cobbosseecontee Tel. following consummation of its acquisition by TDS.

- a. Pending approval of the Master Service Agreement, the parties agree that the forms of the existing service agreements with various TDS affiliates currently in place for Hampden Telephone Company ("Hampden Tel."), and approved by the Commission as a part of the acquisition of Hampden Tel. by TDS Telecom, shall be approved as agreements with affiliates for Cobbosseecontee Tel. under 35-A M.R.S.A § 707(3)(D), to be effective following consummation of the acquisition of Cobbosseecontee Tel. by TDS Telecom.

- b. Commission approval of the Hampden Tel. form of service agreements for Cobbosseecontee Tel., and ultimate Commission approval of the Master Service Agreement, does not constitute a finding that any term contained in such agreements is reasonable for ratemaking purposes nor shall approval of such

agreements limit or restrict the Commission's powers to determine the rates, tolls, charges or fares of Cobbosseecontee Tel.

12. The parties agree that all other approvals that may be required by this acquisition and the related transactions as described in the Petition and in the supplemental information provided by Petitioners are hereby granted.

13. The parties to this Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Staff to discuss this Stipulation and the resolution of this case with the Commission, without the participation of any other party.

14. The record on which the Commission may base its determination in this matter shall consist of this Stipulation, all information provided by Petitioners in this proceeding, and any other material furnished by Staff to the Commission, either orally or in writing, at the time of the Commission's consideration of this proceeding.

15. The Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

16. This Stipulation represents the full agreement between all parties to the Stipulation and rejection of any part of this Stipulation constitutes rejection of the whole.

Dated: August 23, 2001

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Corporation, Hampden Telephone Company,
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Dated: August 23, 2001

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Dated: August 23, 2001

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